North American Trade Liberalization

Sector Impact Analysis

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NORTH AMERICAN TRADE LIBERALIZATION
SECTOR IMPACT ANALYSIS

I AGRICULTURAL, FISH AND FOOD PRODUCTS

1. Meat and Processed Grain Products
2. Grocery Products/Further Processed Foods
3. Fishery Products
4. Alcoholic Beverages

II RESOURCE-BASED PRODUCTS

1. Iron and Steel
2. Metals and Minerals Processing
3. Primary Wood Products
4. Pulp and Paper
5. Petrochemicals
6. Plastics
7. Pharmaceuticals

III TEXTILES, APPAREL AND FOOTWEAR

1. Textiles
2. Apparel
3. Leather and Footwear

IV TRANSPORTATION EQUIPMENT

1. Autos and Parts
2. Urban Transit and Railway Systems

V MACHINERY AND EQUIPMENT

1. Agriculture Machinery and Equipment
2. Mining Machinery and Equipment
3. Electrical Products
4. Machine Tools and Tooling
5. Plumbing Products

VI INFORMATION TECHNOLOGIES EQUIPMENT AND SERVICES

VII SERVICE INDUSTRIES

1. Commercial Services
2. Construction Contracting

VIII TOURISM

NORTH AMERICAN TRADE LIBERALIZATION

SECTORAL IMPLICATIONS FOR CANADA

Mexico and the United States have agreed in principle to negotiate a comprehensive free trade agreement. Consideration is being given to the possibility of expanding the negotiations to include Canada.

This document attempts to provide a very preliminary assessment of the potential impact that further trade liberalization might have on a number of individual Canadian sectors. While not all sectors are presented in these assessments, the range of sectors are considered to be broadly representative.

These assessments highlight existing Canada-Mexico sectoral trade patterns and attempt to provide an indication of the potential sectoral impacts on Canadian trade and investment interests arising from a bilateral Mexico-United States trade agreement and from a trilateral Mexico-Canada-United States trade agreement.

In view of the high degree of uncertainty concerning the specifics of any negotiated agreement - whether bilateral or trilateral - these assessments must be considered as only being indicative of what the potential sectoral impact might be. They have been prepared at this time to assist in determining whether or not Canada might wish to participate in these negotiations and, if so, to assist in development of specific negotiating objectives.

I AGRICULTURAL, FISH AND FOOD PRODUCTS

1. Meat and Processed Grain Products

Mexico is increasingly unable to produce its own basic foodstuffs such as wheat, dairy products, livestock feedstuffs (especially protein meals), vegetable oils and meats (especially pork) due to its limited arable land base, its growing population and increasingly restricted water supplies. Trade in these commodity items is limited and no distinct trends have emerged over the past decade.

U.S. suppliers are better positioned to service the Mexican market and would be able to quickly take advantage of a bilateral trade agreement. Canada's trade with the U.S. in these products would not be adversely affected in view of Mexico's limited production capacity. Canadian firms would not be likely to shift production to Mexico as their operations are tightly tied to the raw material base in Canada.

Canadian suppliers have limited experience in the Mexican market due to long standing trade restrictions (import quotas, state procurement agencies, etc.), and exchange controls. Nevertheless, if these restrictions are eliminated, there will be opportunities for ongoing sales of raw agricultural commodities (canola, wheat, barley, beans), primary processed products (malt, flour, canola meal, skim milk powder, etc.) and selected meat products (pork offal, tallow, lard, etc.).

2. Grocery Products/Further Processed Foods

The Canadian grocery products sector is largely domestic market oriented, although this is gradually changing as a result of the need to respond to the new global competitive environment. Exports and imports average about 10 percent of shipments overall, primarily to and from the border regions of the U.S. In 1989, Canadian shipments of grocery products (i.e. excluding plant and animal, fisheries products and beverages) to Mexico totalled $8.5 million. Processed vegetables and vegetable preparations accounted for the bulk of this, with $7 million of exports. Imports from Mexico into Canada of grocery products were over $46 million, with coffee accounting for $26.7 million of this figure. Canada imported $8.6 million worth of processed vegetables and vegetable preparations from Mexico.

A trilateral free trade agreement would be likely to have only a limited impact on the sector. A key Mexican advantage, cheaper labour, is a relatively small cost factor for processed foods compared to agricultural inputs, where Mexico would have fewer advantages (fruits and vegetables being an exception).

Imports of fresh vegetables and fruit could increase although these largely replace out-of-season Canadian supplies. Export gains for Canadian food processors would be

limited. However, as Mexican standards of living rise, opportunities may be created at the upper end of the market for specialty foods from Canada.

3. Fishery Products

In 1989, Mexico's fish catching goal was 1.36 million tons from ocean stocks and 200,000 tons from fish farms. Shrimp production is an area of growth, but Mexican shrimp is a different market size compared to Canadian shrimp. In the period 1981-86, Mexico's fish exports ranged between $371 U.S. million and $49.4 U.S. million, while imports were generally less than $10 U.S. million.

Key Canadian fishery product exports to Mexico in 1989 were: hake ($736,000), salted fish ($422,000), and fish fresh or chilled (species not specified $854,000). The principal fishery import from Mexico in 1989 were shrimps valued at $2.2 million.

A preliminary analysis suggests that a free trade agreement that linked Canada and Mexico would not have major trade implications for the fishery sector. Some opportunities might emerge for lower priced Canadian species in Mexico and saltfish. Some opportunities for Canadian/Mexican joint ventures could develop, based on Canadian infrastructure/technology investment.

4. Alcoholic Beverages

Non-tariff barriers are of greater significance to trade in alcoholic beverages than tariffs.

The alcoholic beverage sector is increasingly global in its approach to trade and investment. A bilateral U.S.-Mexico agreement would not likely have any significant impact on Canadian interests. A trilateral agreement is not expected to have a significant impact on Canadian trade in distilled beverages or wines, but may exert further pressure on the Canadian beer sector.

II RESOURCE-BASED PRODUCTS

1. Iron and Steel

Mexico's iron and steel exports to Canada are not very significant and would not greatly affect our industry in the event of a free trade agreement. However, Mexican goods could displace other countries' exports in the U.S. market. This would primarily affect exports from countries outside North America since Canada and Mexico sell into different markets in the U.S. Canada focuses on the northeast and midwest U.S. states, whereas Mexico focuses on the U.S. southern states. Transportation costs and quality factors make it unlikely that Mexican steel will make inroads in the near future into Canada's major U.S. steel markets.

Tariffs are not regarded as an impediment to the flow of steel products between Canada and the U.S. Non-tariff barriers have been a concern and the Canadian industry would like to see any remaining ones removed.

It is possible that increased economic activity in Mexico will result in increased exports of Canadian steel products. However, to the extent that Mexico imported more steel products, one would expect most of them to come from the U.S. especially if it enjoyed a tariff advantage over exports from Canada.

A bilateral agreement between Mexico and the U.S. would affect the investment opportunities in Canada. Canada's preferential access to the U.S. market, obtained under the FTA, would be diluted.

2. Metals and Minerals Processing

The Metals and Minerals processing sector includes all refined non-ferrous metals, ferroalloys, abrasives, refractories and some ceramics.

Mexico is a major producer of copper, lead, gold, silver and zinc. Prices are established on world commodity exchanges and Canada is considered to be competitive internationally. The sector is not expected to be affected by either a bilateral or trilateral agreement.

3. Primary Wood Products (lumber, panels, shingles. etc.)

Canada's trade in primary wood products with Mexico is very modest. Canadian exports to Mexico in 1988, were only $150,000 and imports were $300,000: a fraction of Canada's global trade in such products.

Mexico's trade in wood products with the U.S. is equally moderate. With the minimal levels of existing trade, even a free trade agreement that excluded Canada would not provide Mexico with an advantage that could affect the overall level of Canadian exports to the U.S. or provide the U.S. with an advantage that would threaten Canadian exports, marginal as they are, to Mexico.

Canada has had a minimal share of the primary wood products market in Mexico because of the proximity of sources of supply in the southwestern parts of the United States. These factors, coupled with a growing domestic wood products industry indicate that there would be little impact on the Canadian industry. However, Mexican tariff rates on wood products are in the 10 to 20 percent range and Canadian participation in any North American agreement will ensure access for Canadian exporters to an important market on the same basis as U.S. competitors. The Mexican market, however, would be one that required a significant investment on the part of Canadian industry to develop.

4. Pulp and Paper

The Mexican pulp and paper industry is composed of 70 plants located in most of the northern and central states. For some years, Mexico has had a policy designed to promote domestic production of most paper grades needed in the domestic market. Imports of Canadian newsprint (1989 sales $6.6 million) are controlled exclusively by a Mexican government agency. Scandinavian producers are active in the market but the U.S. continues to be the largest supplier of pulp and paper to Mexico, exceeding Canadian sales by a ratio of 12:1.

Under a strictly bilateral U.S.-Mexico FTA, there could be some trade diversion from Scandinavian sources in favour of increased U.S. supplies. Under a trilateral FTA that included Canada, Canadian producers would continue to face vigorous competition from U.S. producers, although there is some scope to displace Scandinavian suppliers in the Mexican market.

5. Petrochemicals

In an effort to attract investment in petrochemicals and to force efficiencies in the sector, the Mexican government has drastically reduced tariffs and will eliminate or ease the requirement for import permits. It will also allow more foreign investment participation in some of the derivative chemicals which before were limited to either minority foreign ownership or were reserved outright for Petroleos Mexicanos (PEMEX), the state-controlled oil company.

Greater access to the Mexican market will not necessarily lead to greater Canadian exports since U.S. production, centred largely in the gulf coast area, will still have a large freight advantage over Canadian producers. In the medium term at least, investments in the Mexican petrochemical industry will go to meeting local demand.

U.S. investment in the Canadian petrochemical industry should continue to be significant under liberalized trade in North America. The Canadian industry will continue to have transportation cost advantages over Mexican producers in the U.S. midwest and northeast areas.

6. Plastics

Trade in plastics materials and products between Canada and Mexico has been modest, averaging about $7 million in each direction during the past few years. This represents less than 1 percent of Canadian plastics trade. Canada's principal trading partner, the U.S., accounts for roughly 90 percent of total Canadian exports of plastics products.

Plastics products, with a few exceptions, are regionally-traded commodities, limited in their distribution range by relatively high transportation costs. Most production is, accordingly, located in proximity to major customers. Mexico, therefore, represents neither a major direct competitor to, nor a direct customer for Canadian facilities; but it is a direct competitor to Southern U.S. locations. Elimination of tariff and non tariff barriers would have a larger direct impact on Mexico and the U.S. than on Canada. Labour costs typically represent about 15 percent of plastics manufacturing costs, and therefore are not a major factor in favour of Mexican competitiveness.

Plastics markets could be indirectly affected, however, if major end-use sectors, such as automotive and electrical-electronics, migrate south as a result of the liberalization of trade with Mexico. Should this occur, supplier industries such as plastics would be required to relocate close to their customers, to the disadvantage of Canadian facilities.

A U.S.-Mexico FTA might have the effect of accelerating industry rationalization along the Mexico/U.S. border. U.S. producers may be able to maintain sufficient value-added to comply with country of origin provisions under the Canada-U.S. FTA and gain a competitive advantage over Canadian manufacturers in supplying North American markets.

7. Pharmaceuticals

Less than 1 percent of Canadian pharmaceutical exports are destined for Mexico. Similarly, less than 1 percent of Canadian imports come from Mexico. About 40 percent of our pharmaceutical exports go to the U.S. The U.S. imports about three times more from Canada ($88 million) than from Mexico ($26 million). Under a bilateral U.S.-Mexico trade agreement, Mexico has the potential to become a more serious competitor.

The pharmaceutical industry is undergoing a wide-spread process of rationalization. New investments in the industry are likely to result in products which meet U.S. regulatory requirements and which would be given product mandates for broad geographical areas.

The greater integration of the North American market would accentuate the rationalization process of this industry. However, a trilateral arrangement would not create a preference for U.S. production sites as would occur under a separate bilateral trade agreement between the U.S. and Mexico.

III TEXTILES, APPAREL AND FOOTWEAR

1. Textiles

Mexico enjoyed a comfortable trade surplus in textiles with Canada in 1989, with shipments of Canadian $42.3 million against imports from Canada of only $8.1 million.

Mexican exports to Canada of acrylic yarn and textured polyester yarn have made significant inroads into these Canadian markets. However, imports of other textile products, including those of natural fibres (cotton, wool) have not been as significant. Canadian exports of textiles to Mexico are primarily commodity products (e.g. man-made fibres).

Under a U.S.-Mexico FTA, Canadian exports to Mexico could be displaced by U.S. exports. Over the longer term, investment may be diverted from Canada to Mexico to take advantage of lower labour costs, as well as proximity to major regional markets in the southern U.S.

Under a trilateral agreement, there are not likely to be significant export increases to Mexico, while pressures from Mexican products would continue.

2. Apparel

The Mexican market is not of significant export interest to the Canadian apparel industry at the present time. Apparel imports from Mexico are not significant, although the situation could change to the disadvantage of some Canadian firms if an FTA were negotiated between the U.S. and Mexico or trilaterally.

Mexico possesses a high number of firms involved in sub-contracting within the Maquiladora industry. These firms offer the advantages of low-cost labour to complement their attractive in-bond manufacturing facilities located mostly along the U.S.-Mexican border. Many U.S. apparel firms have set up subsidiaries in Mexico to combine the advantages of the Maquiladoras with sophisticated cost-averaging strategies involving Mexican and domestically-made goods.

If the U.S. were to negotiate an FTA with Mexico, it could be difficult for Canadian firms to adjust to imports of commodity-type apparel from the U.S. A U.S.-Mexico FTA would add to the existing pressures on the apparel industry to re-structure. Over the long-term, Canadian apparel manufacturers and foreign investors might consider diverting planned investments from Canada to Mexico.

Similarly, a trilateral FTA would probably increase the pressure on Canadian manufacturers of commodity apparel. Over the longer term, the larger manufacturers in Canada might decide to invest in Mexico to make products to complement their Canadian lines. Canadian manufacturers of non-commodity or fashion oriented apparel would not be faced with the same degree of competition.

A trilateral FTA would do little to enhance Canada's export opportunities in Mexico.

3. Leather and Footwear

Leather and footwear trade between Canada and Mexico is very minimal. However, trade from each country to the U.S. is substantial. Canada exported U.S. $40 million worth of footwear and $30 million worth of leather to the U.S. in 1988. Mexico's exports to the U.S. were $102 million and $24 million, respectively.

Since a large proportion of Canada's footwear exports consists of winter related products in which Canada has developed particular expertise and has acquired a favourable image, it is unlikely that our exports to the U.S. would be displaced by a U.S.-Mexico trade agreement.

A U.S.-Mexico free trade agreement would probably not have a noticeable impact on investment in Canada. Other countries are seen as preferred locations for new investment in the footwear industry.

The major impact that a trilateral agreement would have on the domestic footwear manufacturing industry would be the duty free access to the Canadian market of products partially or totally manufactured in Mexico. This could result in significantly increased import pressure from Mexico products, mostly in the medium-to-low end segment of the market. Some larger Canadian manufacturers could benefit from this agreement by having part of their production made in Mexico for re-export in the U.S. and even to Canada.

IV TRANSPORTATION EQUIPMENT

1. Autos and parts

The Canada-U.S. Free Trade Agreement reconfirms the Auto Pact principles of rationalized motor vehicle and original equipment parts production within an integrated North American market. Participating Canadian Auto Pact companies continue to be eligible to import automotive products duty-free from both the U.S. and from Most Favoured Nation (MFN) countries, such as Mexico. Non-Auto-Pact companies import automotive products from Mexico at the General Preferential Tariff rate of 6 per cent.

Canada has been in an automotive trade deficit situation with Mexico for several years. Canadian imports of Mexican automotive products amounted to approximately $299 million in 1989, roughly one third of which were passenger cars, and the remainder were comprised mostly of automotive parts and components. Exports of Canadian automotive products to Mexico amounted to $71.6 million in 1989 and consisted entirely of automotive parts. If other tariff line items are included, such as certain types of machinery, stereos and glass used in the production of vehicles, total automotive imports from Mexico amount to about $680 million. Over 98 per cent of automotive imports from Mexico enter duty-free under the Auto Pact.

The elimination of the U.S. tariff on automotive products would not in itself provide great incremental benefit for Mexican exports. While the average U.S. parts tariff is currently 3 to 4 percent, most automotive goods enter U.S. free trade zones where, as a result of their incorporation in automobiles, they become upon exit, dutiable at the lower rate of 2.5 percent.

In addition, under the outward processing provisions of U.S. trade law, when the products are exported to the U.S., duty is, in effect, paid only on the Mexican value-added (since most of the original components used are of U.S.-origin). The program is successful because it allows auto parts producers to benefit from low Mexican labour costs while maintaining near duty-free access to the U.S. market. It is estimated that approximately 200 auto parts manufacturers have established Maquiladora facilities which produce mostly labour-intensive, low technology components. General Motors, Ford and Chrysler have established approximately 42 plants in the Maquiladora region.

In effect, one way "de facto" free trade already exists between Mexico and the U.S. and Canada for automotive products because of the combined effects of the Auto Pact provisions, the Maquiladora industrialization program and U.S. trade regulations. As a result, Canadian parts producers and exporters have faced and are currently facing competitive pressures from labour-intensive, low-technology Mexican parts exported to Canada and the U.S. In addition, Canadian parts producers are under pressure from the Big Three and the transplants to lower their costs.

In 1989, a new Mexican decree was introduced (for implementation in late 1990) which would ease some of the current restrictions in that country on automotive trade and investment. It would, for example, abolish import licensing requirements and allow 50 percent or more foreign ownership of domestic companies. It would also lower the Mexican content requirement from 60 to 36 percent on average, making it easier for vehicle assemblers in Mexico to achieve higher levels of quality through the use of imported parts.

The decree is intended to improve the climate for automotive investment in Mexico, particularly in the area of high-technology, high-quality parts (a product segment where Mexico is weak), and in vehicle assembly. In essence, the measures of the new decree are designed to bring the Mexican automotive industry up to international levels of quality and competitiveness. However, these reforms will still leave the Mexican industry with a high degree of protection. The complete removal of the remaining barriers would place the domestic Mexican industry (in particular their assembly operations for the Mexican market--as opposed to parts production for export) under severe competitive pressures.

A free trade arrangement between the U.S. and Mexico would not significantly change the North American environment in which Canadian automotive companies compete. It might, however, have the effect of accelerating several trends which are already occurring in the industry, i.e., the growth of the Mexican automotive parts industry, increased sourcing of labour intensive, low-technology Mexican parts by North

American companies, and further foreign investment in parts facilities in Mexico, particularly in the high-technology, high-quality parts segment, and increased competition from Mexican-manufactured vehicles. In terms of a Canada-U.S.-Mexico free trade area, as stated previously, virtually all Mexican automotive imports enter Canada duty-free, and therefore there would likely not be significant additional downsides compared to the status-quo. On the export side, it is clear that competition from Mexican parts and components in the U.S. market will increase. To date, Mexico has not moved into the assembly for export in a large way, but the possibility exists nonetheless. As for the Mexican market, the opportunity for additional direct exports of Canadian parts or vehicles would appear to be limited. However, as the Mexican market for North American vehicles expanded, Canadian materials and parts would move into Mexico as part of U.S. vehicle exports.

Whether a free trade arrangement is struck between the U.S. and Mexico or not, Canadian automotive vehicle and parts producers will be faced with increased competition in the 1990's from producers in Mexico (and if not Mexico, other low-cost suppliers in South East Asia or Brazil).

2. Urban Transit and Railways Systems

Urban transit equipment includes urban (city) buses and highway (inter-city) motorcoaches as well as light rail vehicles (LRV), subway cars, and related support systems. The railway segment includes locomotives, rolling stock, and signalling and communications systems. With regard to urban transit equipment and buses, Mexico's "Buy National" policies, recent economic problems and high tariffs have combined to constrain significant imports, but Canadian firms continue to be very interested. Mexico City alone is planning on spending about U.S. $180 million to upgrade its metro system. Sales of railway equipment have been made in the past to Mexico as a result of funding from the Canadian International Development Agency (CIDA). Canadian railway equipment manufacturers in Canada will continue to be interested in the Mexican modernization program.

Current Mexican production capability is not considered to be competitive. There is only one major bus producer in Mexico which is not regarded as a potential threat to Canadian manufacturers in either the Canadian or U.S. market. If Mexican economic activity increases and as the government increases its investment in the country's infrastructure, medium to long term opportunities could be realized by Canadian manufacturers of railway and urban transit equipment.

V. MACHINERY AND EQUIPMENT

1. Agriculture Machinery and Equipment

Canada has allowed duty free entry for nearly all types of farm machinery from all countries since 1944.

A bilateral U.S./Mexico agreement would provide U.S. manufacturer of large scale farming equipment with an advantage over their Canadian competitors in the Mexican market. This could affect about $5 million in sales annually. In a trilateral agreement, Canadian firms would gain duty free access to the Mexican market which would improve their competitiveness with non-North American manufacturers while maintaining their competitive position via-à-vis U.S. firms.

2. Mining Machinery and Equipment

Canadian production of mining equipment is $450 million a year, of which 73 percent is exported, principally to the U.S. and South America. Canadian imports are $370 million (75 percent of the domestic market), of which 70 percent comes from the U.S. Mexico imported $300 million worth of mining equipment in 1988. Though Canada supplied a very modest $10 million of Mexico's overall imports, there is good potential for expansion of Canadian exports in this sector as a result of recent changes in investment rules. U.S. companies are much more aggressive in Mexico and supply the bulk of their needs.

Under a bilateral FTA, the U.S. would gain additional advantages (Mexican tariffs plus administration fees are roughly 20-25 percent in this sector) but the likely trade diversion effects on Canada would be modest (European and Japanese suppliers would likely be hit harder). In a trilateral agreement, Canadian firms would likely improve their competitive position in the Mexican market relative to offshore suppliers.

3. Electrical Products

"Capital intensive" products are mature, mass produced items such as small electric motors, industrial motor controls, light bulbs, and distribution transformers. For these products, a large degree of capital investment in new plant and equipment is constantly required to remain competitive. A tripartite FTA would likely soften the impact on Canada of increased U.S. competitiveness that would be a consequence of a bilateral U.S.-Mexico FTA, by enlarging access to Mexico for some of the more competitive Canadian plants.

Another category of electrical products includes those that are mature, highly price competitive, and sensitive to freight costs. Examples are electrical conduits, fittings, standard medium voltage transformers, and the larger standard electric motors. In general, these products will tend to be manufactured on a local and regional basis in all three countries with minimal disturbance, regardless of the evolution of free trade.

In addition, there are products such as lamp ballasts and batteries which are labour intensive. In these areas, a shift from the U.S. to Mexico is already occurring, a shift that would be accelerated under a bilateral U.S.-Mexico agreement. Certain

Canadian subsectors could face additional competitive pressures as the industry is fiercely price competitive and labour intensive.

4. Machine Tools and Tooling

Canadian machine tool producers have made periodic sales of large machining systems to manufacturers in Mexico. Tooling manufacturers, on the other hand export custom built tools on a regular basis ($1.5 to $2 million annually). Imports of machine tools and tooling products from Mexico have not been significant over the past five years.

Mexico is not seen as a major market by Canadian machine tool and tooling producers, however, some producers are exporting to that market. A free trade agreement with Mexico would allow Canadian producers to identify and develop market strategies to pursue export opportunities.

5. Plumbing Products

Mexico has been a significant supplier of ceramic sinks, washbasins and sanitary fixtures for both the American and Canadian market. The production of porcelain china sanitary fixtures is both an energy and non-skilled labour intensive process. Many U.S. companies have started or are committed to transferring significant production of ceramic plumbing fixtures from U.S. locations to Mexico.

Canada currently exports a very limited quantity of porcelain china sanitary fixtures ($1.9 million) in 1988. Canada imported $39.2 million in 1988 with $5.9 million from Mexico. Canada would experience minimal, if any, increase in exports to Mexico with the introduction of a trilateral free trade agreement. However, there could be substantially increased imports from Mexico as the industry there becomes stronger.

VI INFORMATION TECHNOLOGIES EQUIPMENT AND SERVICES

Mexico is not considered to be a major market for Canadian information technologies manufacturers. In 1989, Canadian producers directed approximately one half of one percent of total exports to Mexico. The Mexican market is not yet sophisticated enough to absorb high value added Canadian products which tend to be very application specific, though there is some potential for Canadian suppliers of business and rural communications equipment. Mexico does, however, have the potential to become a leading North American supplier of high volume/high labour content information technology products. Companies such as IBM have established high volume manufacturing and assembly operations of items such as PS/2s and computer keyboards in Mexico. Canada had a trade deficit in information technologies equipment in excess of $280 million with Mexico in 1989.

There is a possibility that over time Mexico will develop a more sophisticated manufacturing capability in competition with Canada's high-value added producers. If a bilateral U.S.-Mexico agreement were to be concluded, foreign multinationals deciding on an investment location for volume manufacturing targeted towards the U.S. market would likely invest in the U.S. to take advantage of both the Canada-U.S. FTA and a bilateral U.S.-Mexico FTA.

A trilateral North American agreement may displace imports from offshore. However, the incremental investment would probably take place in Mexico (low cost labour) or the United States (high value added, R&D capability, access to capital). At best, Canadian manufacturers will have tariff free access to Mexican inputs for their final products. This, however, will have a negative impact on our infrastructure of industry suppliers.

It is conceivable that a trilateral agreement will be of some benefit to Canada's telecom industry. The Mexican telecom equipment market is not insignificant, at one-half the size of the Canadian market, and growing twice as fast. While Canadian exports to this market have been small (perhaps 1 percent of total exports), there are opportunities in the areas of rural, remote and business telecommunications, where the principal competition is from producers based in Japan and Europe.

VII SERVICE INDUSTRIES

1. Commercial Services

Trade in commercial services between Mexico and Canada is not significant, in part because Mexico maintains a number of barriers that discourage such trade.

A bilateral U.S.-Mexico FTA would likely have little immediate impact on Canadian service exporters given the little trade now ongoing between Canada and Mexico. Such a bilateral agreement would, however, be detrimental to Canada's potential prospects for trade with Mexico.

A trilateral FTA may ensure that Canada retains the option of exploiting opportunities in Mexico as they arise. Mexican service activity in Canada would not be expected to increase. Any negotiations would have to take into account the results of the MTN negotiations in the area of services.

2. Construction Contracting

There is little or no activity by Canadian contractors in the Mexican market, although other foreign contractors are active in Mexico through Mexican affiliates in

areas such as the construction of tourist facilities. This suggests that Canadian contractors probably could find potential opportunities in supplementing the capability of Mexican companies.

There would be no significant impact on Canadian contractors from a U.S.-Mexico agreement. The Mexican industry is not large and would not compete with the limited Canadian activity in the U.S. which is concentrated in the northern border area, although Mexican companies are increasingly competing with Canadian companies outside Mexico, particularly in Central America.

VIII TOURISM

The tourism industry is of significant importance to the Mexican economy as an employment generator and foreign exchange earner. Bilateral tourism agreements already exist between Mexico and the U.S. and between Mexico and Canada.

Tourism is basically a de-regulated industry (except for air bilateral agreements) and consequently governments find tourism a relatively easy area to achieve consensus in the overall trade negotiation process. If Canada was to pursue trade talks with the U.S. and Mexico, tourism would be a subject of easy agreement between all three countries. While there are likely no major benefits for Canada to be gained from a tri-national tourism agreement, there are likely to be no detrimental effects on the Canadian tourism industry as a result of such an agreement.